No. 215.

SUPREME COURT

Reply Br. of Risley

OF

THE UNITED STATES.

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OCTOBER TERM 1901.
No. 215.

E. BEMENT & SONS,
Plaintiff in Error,

vs.

NATIONAL HARROW COMPANY,
Defendant in Error.

Replying Brief.

EDWIN H. RISLEY, *Of Counsel*
For the Defendant in Error.
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The contention in the briefs of the plaintiff in error that the contracts in suit were part and parcel of an unlawful combination in restraint of trade, which effects inter-state commerce is not supported by the evidence or by the decision of the referee.

The contentions of counsel are contradictory and uncertain and are in substance:

First. That the contracts between the plaintiff in error and the New York corporation, executed and delivered at the same time and relating to the same transaction, should be read and interpreted together, and when so read and interpreted, they constitute an agreement in hostility to the provision of the Act of Congress, approved July 2nd, 1890.

Second. That the alleged contracts between the plaintiff in error and the New York corporation and between the latter and various other parties entered into at a much earlier date than the contract in dispute and those earlier dated contracts which had been previously cancelled, are to be resorted to as furnishing a motive and an intention in the making of the contracts in suit, which motive is to be resorted to as evidence affecting the validity of the contracts sued on.

In considering the first proposition, the defendant in error concedes that all of the papers executed and delivered at the same time relating to the same transaction and between the same parties, may be read and construed together.

The contracts are as follows:

First. Contracts A. and B.

Rec., pp. 7-19.

Second. Agreement to arbitrate as to the value of the patents and rights under patents assigned by the plaintiff in error to the New York Corporation.

Exhibit 6, *Rec.*, *pp.* 51, 52, 72.

Third. An agreement to pay a sum of money which should amount to one dollar each on all float spring tooth harrows sold and shipped by E. Bement & Sons, from Sept. 10th, 1890 to the date that the licenses were delivered, June 17, 1891.

See agreement Rec., *pp.* 72-73.

Fourth. Separate assignments of patents and patented rights under a license contract from Charles LaDow to the National Harrow Company, the said E. Bement & Company covenenting that they would save the National Harrow Company from all claims for royalties or damages on account of LaDow's rights and separate assignments of U. S. Letters Patent Nos. 441, 367, 450, 984. and 451, 422, dated June 17, 1891, the day on which all of the contracts were delivered.

Rec., *p.* 354.

Fifth. An assignment in realty by E. Bement & Sons to the New York Corporation of Re-issued Letters Patent of the U. S., No. 10,092, issued to Charles LaDow and an assignment of all interest under the same,

Rec., p. 352.

Sixth. Assigned on the same day a one-half interest in re-issued Letters Patent No, 10,041, and of patent No. 144,236, one-half interest in U. S. Letters Patent, re-issued No. 222,542, re-issued 10-082, contract with Charles LaDow, which gave to the plaintiff in error the right to make the Steel King Har-

row under assignments of patents No. 441,367, November 25th, 1890, No. 450,964, April 21, 1891, No. 451,422, April 28, 1891, and all other LaDow patents pertaining to the "Steel King" structure. E. Bement & Sons on the same day having idemnified the National Harrow Company of New York against all liability from the LaDow patent and released the company from defending it in any litigations with LaDow, growing out of the contracts with him or the patents owned by him so far as applied to the "Steel "King" Harrow.

This fact was found by the arbitrators in making their award as to the value of the rights transferred.

The Arbitrators Award found "8th, That E. "Bement & Sons were the owners of and have con- "veyed to the National Harrow Company the pat- "ents and interest in patents and rights thereunder "as set forth in Schedule H, hereto attached and "made a part of this report."

Rec., p. 314.
Schedule H, Rec., p. 319.

The arbitrators found in their answer that the value of the rights transferred by E. Bement & Sons to the National Harrow Company of N. Y., to be worth $29,200.

Rec., p. 315.

Seven. The Escrow agreement so called, appears to have been signed by the National Harrow Company of New York, E. Bement & Sons and Edward Norris, and is between different parties.

This Escrow agreement was signed on the same day on which all of the other papers in dispute were delivered.

The only purpose of the Escrow agreement was to determine the time of the delivery of the papers therein referred to.

The contracts which the referee decided were valid and binding, were only those contracts executed and delivered between the plaintiff in error and the National Harrow Company of N. Y., the assignor to the defendant in error. There is no finding in the record, that the Escrow agreement, so called, was a valid and binding agreement, or that it was ever delivered or become operative.

The referee found and decided that the contracts entered into between the plaintiff in error and the New York Corporation, on the 17th day of June, 1891, were the only contracts or agreements ever existing between the plaintiff in error and the New York Corporation, assignor to the defendant in error.

See references, sub-division 10, *p.* 7, *of defendant's in error brief and the references there cited.*

On these facts the referee properly decided that these various contracts constituted a sale by the plaintiff in error to the New York Corporation, of certain U. S. Letters Patent, license rights under patents and agreements pertaining thereto and constituted a valid sale thereof and a settlement of existing patent litigations.

On the 16th day of June, 1891, the day prior to the day on which the contracts in suit were executed and delivered, the trustees of the National Harrow Company, of New York, voted to deliver the contracts with other parties than the plaintiff in error, who at

that time had no contract relations with the New York Corporation.

Rec., pp. 351–352.
See Referee's report, pp. 63, 64.
Concessions Rec., p. 309.
Risley's evidence Rec., p. 155.
Brinkerhoff's evidence Rec., pp. 323, 324, 327.

The plaintiff in error on the undisputed evidence and the finding of the referee had no contract relations whatever with the New York corporation with any other persons, firms or corporations, relating to the sale of its patented rights and privileges and the settlement of pending patent litigation between the parties.

These agreements between the plaintiff in error and the New York corporation were not in any manner founded upon any previous contracts between the parties or between the plaintiff in error and any of the other parties with whom the New York corporation was in contract relation.

All of the contracts entered into between the plaintiff in error and the New York corporation are collateral to an independent of the alleged wicked combination between the New York corporation and several other persons, firms and corporations, who constituted the alleged illegal trust. The plaintiff in error was in no manner, directly or indirectly, connected with the alleged conspiracy between the New York corporation and other parties who are not parties to this suit.

The plaintiff in error sold and assigned by separate instruments in writing its U. S. Letters Patent and

licensed rights under patents to the New York corporation for the sum and price fixed by the arbitrators at $29,200, which was paid according to agreement of the parties and no part of this price has been tendered or offered to be restored.

The patents and patented rights sold by the plaintiff in error to the New York corporation are Nos. 10,041, 144,236, 222,542, 10,082, 441,367, 450,964 and 451,422.

By examining the list of patents in the license contracts in suit, it will be seen that neither of the patents assigned by the plaintiff in error are embraced in those contracts.

All of the U. S. Letters Patent embraced in the contracts in suit and their title were derived by the New York corporation from parties other than the plaintiff in error. The record shows that the Company had paid tens of thousands of dollars in money for many of these patents and had purchased from parties other than the plaintiff in error other patents by the issuing of its paid up capital stock for the price agreed upon with other parties.

The New York corporation owned the patents by purchase from parties other than the plaintiff in error, under which the latter company has been enjoined from the manufacture and sale of its spring tooth harrows.

It is true that the final decree had been opened by Judge Jackson on grounds not effecting the ground upon which the decree was pronounced, but on alleged newly discovered evidence of prior use.

It cannot be truthfully contended that any of the patents or patented rights specified in the license contracts, came through the plaintiff in error or that it ever had anything to do with them except to infringe them.

If it were to be assumed that the New York corporation was engaged in an unlawful effort to monopolize the spring tooth harrow trade of the United States by virtue of its U. S. Letters Patent and its agreements with other persons, firms and corporations than the plaintiff in error, it cannot avail itself of that fact when it was never a party thereto.

In Strait v. National Harrow Co., 51 Fed. Rep., 819, a suit in which the plaintiffs sought a permanent injunction restraining the defendant from instituting or prosecuting any action against the plaintiffs for the infringement of letters patent owned by the defendant covering certain improvements in spring tooth harrows, or from instituting or prosecuting any such suits against any person using the spring tooth harrows manufactured by the plaintiffs, the court said:

"In substance, the complaint shows that the de-
"fendant has entered into a combination with various
"other manufacturers of spring-tooth harrows for the
"purpose of acquiring a monopoly in this country in
"the manufacture and sale of the same, and, as an
"incident thereto, has acquired all the rights of the
"other manufacturers for the exclusive sale and man-
"ufacture of such harrows under patents, or interests
"in patents, owned by them respectively. Such a
"combination may be an odious and a wicked one,
"but the proposition that the plaintiffs, while infring-
"ing the rights vested in the defendant under letters
"patent of the United States, is entitled to stop the

"defendant from bringing or prosecuting any suit "therefor, because the defendant is an obnoxious cor- "poration, and is seeking to perpetuate the monopoly "which is conferred upon it by its title to the letters "patent, is a novel one, and entirely unwarranted. "The party having such a patent has a right to bring "suit on it, not only against a manufacturer who in- "fringes, but against dealers and users of the patented "article, if he believes the patent is being infringed ; "and the motive which prompts him to sue is not "open to judicial inquiry, because, having a legal "right to sue, it is immaterial whether his motives "are good or bad, and he is not required to give his "reasons for the attempt to assert his legal rights. "'The exercise of the legal right cannot be affected "'by the motive which controls it.'

Kiff v. Youmans, 86 *N. Y.*, 329."

The same doctrine is held in National Distilling Co., v. Cream City Importing Co., 86 Wis., 352–355.

Dennehy v. McNulta, 86 *Fed. Rep.*, 825–829.

Distilling & Cattle Feeding Co., v. People, 156 *Ill.*, 448.

The same doctrine was announced in The Charles E. Wisewall, 74 Fed. Rep., 802, where the Court assumed the existence of the alleged conspiracy to monopolize the barged service on the Hudson River, said :

"He (the claimant) should not be permitted to re- "pudiate his just debts to the individual tugs because "their association was illegal. Having asked for "their services and having accepted the benefit there- "of, he should pay. . . . An agreement by the "tug Mayflower to tow the dredge Wisewall, for a

"reasonable sum, from Albany to Troy, is not void "because the Mayflower is associated with other tugs "to regulate the price of towing at Albany. Should "the claimant purchase a pair of trousers at an "Albany clothing shop, he would find it difficult to "avoid paying their actual market price because the "vendor and other tailors of that city had combined "to keep up prices."

This Court in Connolly v. Union Sewer Pipe Co., No. 46 October Term, 1901, March 10th, 1902, say:

"Nor can the defendants refuse to pay for what "they bought upon the ground that the seventh sec- "tion of the Sherman Act gives the right to any person "'injured in his business or property by any other "'person or corporation by reason of anything forbid- "'den or declared to be unlawful' by the act, to sue "and recover treble the damages sustained by him. "We shall not now attempt to declare the full scope "and meaning of that section of the act of Congress. "It is sufficient to say that the action which it au- "thorizes must be a direct one and the damages "claimed cannot be set off in these actions based up- "on special contracts for the sale of pipe that have "no direct connection with the alleged arrangement "or combination between the plaintiff and other cor- "porations, firms or companies. Such damages can- "not be said, as matter of law, to have directly "grown out of that arrangement or combination, and "are, besides, unliquidated. Besides, it is well set- "tled in Illinois that 'unliquidated damages arising "'out of covenants, contracts or torts disconnected "'with plaintiff's claim cannot be set off under the "'statute.'" (p. 9).

The evidence shows that the plaintiff in error had no direct relation whatever with the New York corporation or with any of the persons, firms or corporations wrongfully connected therewith.

The plaintiff in error sold its patented rights and rights under patents to the New York corporation and received the prices agreed to be paid.

In the National Harrow Company v. Quick, 67 Fed. Rep., 130, the Circuit Court of the District of Indiana held that a party sued for an infringement of the plaintiff's patent could set up and defend his infringement on the allegations and proofs that the plaintiff had become the owner of the patent as the result of an unlawful combination.

On appeal from this judgment to the Circuit Court of Appeals for the Seventh Circuit, Judge Wood in speaking for the Court said :

"While not prepared, in view of the authorities, "to sanction the proposition that the infringer of a "patent may escape liability by showing that the legal "owner is engaged in a supposed unlawful combina- "tion or trust, we do not consider the point."

National Harrow Company v. Quick, 74 *Fed. Rep.*, 236.

The first case has never been cited so far as we know with approbation in any Court and cannot be considered as Law in any case except the one decided.

The second patent from the top of the second column of patents in each of the contracts is No. 201,-946. This patent had beened owned for some years by D. C. & H. C. Reed & Company, of Kalamazoo,

Michigan, in the territory of the United States lying west of Maryland, Pennsylvania and in the territory east of that line by G. B. Olin & Company, of Canandaigua, N. Y. This patent and others were purchased by the National Harrow Company from G. B. Olin & Co. in its territory upon the payment of $15,000 in money and the interest of D. C. & H. C. Reed & Co. for a still larger consideration paid in the capital stock of the New York corporation.

Reed & Company while owning this patent brought suit for infringement against one Smith, of Michigan, in the Circuit Court for the Eastern district of that State, and the case went to final hearing before Judge Brown, who followed prior decisions and sustained the patent.

Reed v. Smith, 40 *Fed. Rep.*, 882.

The plaintiff in error obtained from the New York corporation contracts the licenses in suit under this and other patents in or to which the plaintiff in error had no interest by contract or otherwise.

The decree in the last case cited was opened by Judge Jackson to enable the defendant to furnish new evidence of prior use.

Under this and numerous prior adjudications D. C. & H. C. Reed & Company had forced Charles H. Childs & Company, A. W. Stevens & Son, W. S. Lawrence and Taylor & Henry to settle and pay damages for infringement, and to pay royalties under the patent.

The suit of Reed v. Smith was brought against a dealer who was handling harrows manufactured by the plaintiff in error, and it was believed by all parties

in the harrow trade to be a valid patent as against all manufacturers of spring tooth harrows who used a clip for adjusting the harrow tooth on the frame in the direction of its length; these styles of harrow embraced the larger portion of harrows manufactured and sold in the United States.

The licensees and owners of this patent organized the National Harrow Company of New York, to whom their respective patents and rights under patents were assigned.

The record abundantly shows that the plaintiff in error had nothing to do with any of the patents mentioned in the license contracts in suit, nor did it have any contract relation with either of the parties or with the New York corporation, prior to the 17th day of June, 1891, when the contracts in dispute were executed and delivered.

This case therefore, in its last analysis is resolved to this:

The New York corporation claimed that its United States patents monopolized the spring tooth harrow trade conducted by the plaintiff in error and prosecutions were pending to enforce these alleged rights at the date of making the contracts in suit.

The plaintiff in error applied for and obtained the license contracts in suit to use the patents of the New York corporation, and it continued the manufacture and sale of its harrows under these licenses and made monthly verified reports and paid royalties thereunder for a considerable space of time; it then abandoned the contracts, and when sued by he defendant in error, alleged and attempted to

prove the unlawful character, not only of the New York corporation, but of the defendant in error. The plaintiff in error never had any relations on the evidence and findings to the alleged monopoly.

This contention is supported by the evidence and by the decision of the Trial Court.

The contention of the plaintiff in error that the contracts entered into by the New York corporation with sundry parties, other than the plaintiff in error, before the execution and delivery of the contracts in suit having been cancelled and annulled in accordance with the decision of the Supreme Court of the State of New York ; in the case of Strait v. National Harrow Company, referred to in the decision of the referee, cannot now be resorted to as a defense by a stranger to the transaction to escape liability on the contracts in suit.

The Sherman Anti-Trust Law has no application to the case, that law applies only to a direct attack wherein the United States is complainant or by a party who is injured by a suit at law in the same Court. It was never intended as a defense on a collateral contract.

Connolly v. Union Sewer Pipe Company, U. S. Supreme Court, No. 46, October Term, 1891 ; *March 10th,* 1902.

The State Court is without jurisdiction to decide the question.

The judgment appealed from should be affirmed or the appeal dismissed.

Dated March 25, 1902.

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